

PERSPECTIVE

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Amidst Indonesia’s Nationalist Atmospherics: The Changing Politics of Jokowi’s Economics

By Max Lane

EXECUTIVE SUMMARY

- President Joko Widodo is continuing to make economic growth policies, centred on attracting investment for infrastructure, his main political priority. Other issues such as his “*Revolusi Mental*” (Mental Revolution) or reconciliation over major human rights violations are receiving little profile.
- Central to Widodo’s strategy to attract investment has been two packages of policy changes aimed at cutting regulations that might hinder business investment, especially foreign business investment.
- A strategy so clearly reliant on open appeals to foreign money, and on deregulation to make investment easier, risks criticism on nationalistic grounds, given the nationalistic atmospherics of the 2015 election campaign and an extensive existing critique of neo-liberal deregulatory policies as being anti-national.
- Widodo’s government introduced some initial symbolic nationalistic policies – but they have been rewound, while nationalistic posturing on minor or “sub-text” issues has become a feature of daily politics.
- Nationalistic posturing remains constant but only at a low level as there appears to be no ideological – or even tactical – opposition from within parliament to Widodo’s policies. The parliamentary opposition’s own credibility as anti-foreign critics has been weakened by some of its own actions.



- More fundamental nationalist economic policies – obligatory use of the rupiah and an extended Negative Investments List¹ – do remain in place, causing some Western foreign investors to remain cautious.

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¹ A list of areas in the economy where foreign investment is banned or restricted.

INTRODUCTION

The economy remains President Joko Widodo's central priority. While he has not had the opportunity to continue or repeat the spate of infrastructure project openings seen earlier this year,² by August and September the government was issuing a very large number of new policies which together amount to a substantial package of deregulation. This deregulation package, it is clearly hoped, will encourage private foreign investment, especially in infrastructure projects – which Widodo has concluded, rightly or wrongly, is the main hope for stimulating economic activity and therefore growth.

The extent of the deregulation packages (see below) exposes the centrality of economic growth, via infrastructure, in Widodo's political programme – the programme on which he will base his popularity, which is still in decline.³ Other areas of leadership which Widodo talked about during his election campaign, such as the high profile "*Revolusi Mental*", which was supposed to change bureaucratic mentality, remain elusive. Some of those who campaigned for him were also assuming, or hoping, that he would take initiatives in the area of reconciliation and justice around past major human rights violations. The previous President, Yudhoyono, had been rumoured at one point to be ready to make a state apology to the victims of the 1965-66 massacres, which he never did. Many Widodo supporters hoped that the new President would do something along these lines on the 50th anniversary of the massacres, i.e. this year in 2015. However, spokespersons for the President stated that no thought had been given to the question and the central issue in the President's mind was managing the economy.⁴ This has always been Widodo's central orientation.

This emphasis on infrastructure and economic growth appears as a narrowing of Widodo's political leadership agenda. Indeed, even at this point his flagship social safety net policies, the Kartu Indonesia Sehat (Healthy Indonesia Card) and the Kartu Indonesia Pintar (Smart Indonesia Card), still do not seem to have been prioritised for an urgent launch and extension. Perhaps this is being planned via the next budget, due January, but there has been no substantial advance to date.

Infrastructure and economic growth seem all-consuming at the moment. This article will assess the additional pressures on Widodo that are entrenching this narrow agenda. It will also describe the nationalistic contortions in politics created by a deregulation of the economy to foreign business activity and a desperate search for foreign capital.

² Max Lane, The Politics of Widodo's Prioritisation of Accelerated Infrastructure Construction, http://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2015_43.pdf

³ <http://www.smh.com.au/national/the-honeymoon-is-over-for-jokowi-20150709-gi98ug.html>

⁴ <http://www.cnnindonesia.com/nasional/20150922144216-20-80296/jokowi-tak-akan-minta-maaf-kepada-korban-tragedi-g30s/>

2015: NEW PRESSURES ON GROWTH

In July 2015, it was already clear that economic growth in Indonesia was slowing. The World Bank's July Quarterly Report on Indonesia assessed that the country was entering a period of "slower gains".⁵ Growth was estimated to have dropped from 5.2% to 4.7%, the slowest pace since 2009. At the same time in July, foreign direct investment figures indicated a drop, even if slight, when measured in U.S. dollars. During this period the rupiah also started to decline substantially against the US dollar, as did many other countries' currencies throughout the world. Institutions like the World Bank, as well as government economists, did not see any of these developments to be posing unsolvable problems. However, outside technocratic discussions, the three indicators of declining growth, declining foreign investment and sliding rupiah did create a political atmosphere where Widodo came under increased pressure to show that he was managing the economy well. Widodo himself was also being held to a statement that by October the economy would "take off" (*meroket*).⁶

This political pressure is also, in a substantive way, an economic pressure. The all-out search for funds, both utilising pension and BPJS monies (Health Care and Social Security Agency),⁷ as well as seeking foreign investment and foreign loans does underpin Widodo's economic strategy. Maximising investment in infrastructure is a necessity for Widodo, made all the more politically urgent by the atmospherics of the three declining indicators. As of October, although the rupiah has strengthened somewhat, these three indicators still impact on the political atmosphere. Reporting of the slowing growth rate and declining investment was, of course, widespread. The association of a rapidly declining rupiah with the *krismon* (monetary crisis) disaster of 1997 also stirred negative sentiments. The media, including via social media, ridiculed some government officials' claims that "the people" were not worried about the drop in the rupiah. Nationalist critics became more vocal in their questioning of Widodo's economic capability.

Pressured by both objective need (given his infrastructure based strategy) and political atmosphere, Widodo has embarked on extensive deregulation. Although he never really used the term "deregulation" in his election campaign, he did make it abundantly clear that he was in favour of streamlining regulation in order to make it easier for businesses "to do business". The most obvious example of this orientation was the rapid push to set up a one-stop system for companies to get necessary permits and satisfy various compliance issues. Widodo had from all accounts successfully established such a one-stop business permit centre in Solo while he was Mayor.

Outside the one-stop centre scenario, things have been, however, more complicated. Some of the first decisions of the Widodo government confirmed or even further enhanced regulation,

⁵ Indonesia Economic Quarterly, July 2015: "Slower Gains" - <http://www.indonesia-investments.com/upload/documents/World-Bank-Indonesia-Economic-Quarterly-July-2015-IEQ-Indonesia-Investments.pdf>

⁶ <http://bisniskeuangan.kompas.com/read/2015/08/05/192311826/Jokowi.Mulai.September.Pertumbuhan.Ekonomi.Indonesia.Akan.Meroket>

⁷ See Max Lane, The Politics of Widodo's Prioritisation of Accelerated Infrastructure Construction, http://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2015_43.pdf

which was very unpopular with foreign investors, especially those from the “West”, the United States and Europe. Key unpopular regulations included:

1. The requirement that all transactions taking place in Indonesia be in rupiah. The use of US dollars was no longer possible. International companies now had to pay their international staff in rupiah, as well as for all other purchases. This was, first of all, a break from practice and therefore unwelcome, as well as introducing problems related to the sliding value of the rupiah. There was a one-year prison sentence to be imposed for the use of US dollars for domestic transactions.^{8 9}
2. The requirement that all export and import transactions be carried out through Letters of Credit. This was extremely unpopular with international companies located in Indonesia, imposing bureaucracy and potential delays in payment for transactions. There is a facility for this to be waived, but this requires Ministerial discretion.¹⁰
3. The revision of the Negative Investment List in May, 2015. This list, known as the DNI, is the list of areas of the economy where foreign investment is banned or highly constrained. An extension of the list to “more heavily restrict foreign investment in a number of other sectors, including telecommunications, agriculture, oil, gas, electricity and power”¹¹ is seen by, for example, the American Chamber of Commerce as a general disincentive to foreign investment. Some slight softening of regulations, for example, in pharmaceuticals is not seen as counterbalancing the heavier restrictions.¹² There are already signs that the government will retreat on some of these restrictions, with the Trade Minister announcing a review and calling for public submissions on the List. The Jakarta Globe reported that “Indonesia's chief economics minister Darmin Nasution has previously said a revision to the negative investment list will be part of economic stimulus measures that the government is rolling out.”¹³ A loosening of restrictions would be a retreat from an earlier nationalistic stance.
4. The requirement that all expatriate staff pass a test in the Indonesian language early on in their assignment in Indonesia.

All of these requirements have a certain nationalist popular appeal. While having that appeal, they all work against the campaign to convince investors, especially Western investors, to bring large scale funds into Indonesia. Foreign investors, through their companies and representative bodies such as Chambers of Commerce, have made their criticisms known.

⁸ http://www.bi.go.id/id/peraturan/sistem-pembayaran/Pages/se_171115.aspx

⁹ <http://bisniskeuangan.kompas.com/read/2015/04/09/154921326/Jaga.Stabilitas.Rupiah.BI.Keluarkan.Peraturan.Baru>

¹⁰ <http://www.hukumonline.com/berita/baca/lt551cf0e82975a/mendag-terbitkan-aturan-ketentuan-penggunaan-l-c-ekspor-barang-tertentu>

¹¹ <http://www.amcham.or.id/opinion/4585-indonesia-s-revised-negative-investment-list-is-truly-negative>

¹² <http://www.amcham.or.id/opinion/4585-indonesia-s-revised-negative-investment-list-is-truly-negative>

¹³ <http://jakartaglobe.beritasatu.com/business/indonesia-seeks-public-submissions-revised-negative-investment-list/>

Furthermore, especially from Western investors, including those already operating in Indonesia, increased social regulation was another discouragement for further investment. The increased social regulation, mainly driven by initiatives from conservative Islamic parties, included the ban on the sale of alcohol in supermarkets, the introduction of a Bill in parliament banning all consumption of alcohol, new laws banning a man and a woman living together if unmarried. While some of these were still Bills, they were seen as symptomatic of a trend that would be creating a less attractive environment to large numbers of expatriate staff.¹⁴

Under pressure to maximize the inflow of foreign funds, Widodo has now introduced two deregulation packages.¹⁵ Before we look at the politics of these packages, it is important to note the reversal of some of the more obviously symbolically nationalistic policies. In August, the requirement for expatriates to pass an Indonesian language test – a requirement affirmed in June – was rescinded, together with a promise that residency permits for expatriate staff would be made easier to get.¹⁶ Soon after, the regulations banning sale of alcohol in supermarket outlets were also eased.¹⁷

The Economic Policy Package Stage I (Paket Kebijakan Ekonomi Tahap I) was released on 9 September.¹⁸ The Second Stage was released on 29 September.¹⁹ The third came on October 8, which emphasised the lowering of fuel, electricity and gas costs for industry as well as a ‘streamlining’ of the administration of accessing land for the purposes of investment. The major thrust of the three packages was to reduce regulatory issues for business, and also lower some costs. There were also some more specific measures outside that realm. For example, free visa entry was extended to over 70 countries, although another nationalist ‘distortion’ was included in that Australia was still excluded from the free visa regime,²⁰ although that too has now been reversed.²¹ There were also regulations which were allegedly streamlined so as to speed up the flow of village development funds to villages.

The deregulation appears large scale with literally hundreds of regulations being rescinded or amended. While some of the rhetoric has emphasised increasing the competitiveness of national companies, a more heavy emphasis has been on attracting foreign investment. There

¹⁴ Communications with Western expatriates in the Jakarta business scene.

¹⁵ Another package was introduced on 15 October aimed at regulating wages. This policy package restricted annual rises to the minimum wage to that based on a strict formula and now only allows for a review of minimum wages every five years. The package has been condemned by all unions. It has been welcomed by employers. http://www.bbc.com/indonesia/berita_indonesia/2015/10/151015_indonesia_reaksi_paketekonomi4

¹⁶ <http://www.indonesia-investments.com/id/news/todays-headlines/no-indonesian-language-proficiency-test-for-foreign-workers-in-indonesia/item5857>

¹⁷ <http://m.news.viva.co.id/news/read/674713-bir-boleh-dijual-di-minimarket-jakarta--ini-kata-ahok>

¹⁸ <http://setkab.go.id/inilah-pokok-pokok-paket-kebijakan-ekonomi-tahap-i-september-2015/>

¹⁹ http://www.bbc.com/indonesia/berita_indonesia/2015/09/150929_indonesia_paket_ekonomi2

²⁰ Visa Free Entry has now also being made available to Australians. <http://www.jakpost.travel/news/47-countries-including-oz-to-enjoy-visa-free-entry-by-october-1ZCPNJATvSdOaGHg.html>

²¹ It has become incumbent on Indonesian governments to maintain some sense of sanction against the Australian government since a series of scandals regarding Australian spying in Indonesia and statements by former Prime Minister Tony Abbott considered to have been undiplomatic.

were also changes to make it easier for foreign investors to enter the property market.²² According to Cabinet Secretary, Pramono Anung:

“This is all to provide positive signals to society and neighbouring countries that Indonesia is a friend to whomever wants to invest their capital in Indonesia.”²³

The clear focus towards making it easier for foreign investors to invest in Indonesia has become, as it was for the Suharto government in the 1960s and 70s, the primary feature of the Widodo economic strategy. The key target – though not the only one – is foreign investment for infrastructure projects, which it is hoped will attract other investments in productive activity.

The government’s intense activities to attract foreign investment are partly due to its inability to mobilise large-scale capital from within Indonesia. This inability is, first of all, a reflection of the relative lack of capital available in Indonesia as reflected in its low per capita income, of only US\$4000. Additionally, the government, comprising parties with close relations with large private conglomerates, and facing a parliamentary opposition likewise well-connected, is not prepared to increase taxes for the private conglomerate sector, whether foreign or domestic-owned. The government has not met its target as regards taxation collection from middle and lower income levels. According to the World Bank: “Revenue was targeted by the Budget to increase by 30 percent but fell 1.3 percent in 2015 through May.”²⁴ As indicated in an earlier *ISEAS Perspective*, Widodo has instructed government departments to assess what monies are available in social and other insurance funds that could be used for infrastructure development.²⁵

CONTRADICTIONS WITH NATIONALISTIC SENTIMENT

The economic policies being pursued by President Widodo should be no surprise. During his election campaign, most clearly in his nationally televised dialogue with the Indonesian Chamber of Commerce (KADIN), Widodo promised an approach aimed at encouraging a private sector driven growth process. He indicated that key to encouraging such a process was his promise to “cut, cut, cut” when it came to regulation. In the same dialogue with KADIN, he indicated he wanted to attract investors and that he was open to approaching foreign lenders. While this was a clear policy perspective espoused by Widodo, he had to do it in a climate where nationalistic rhetoric was high, including a nationalistic rejection of what was referred to as neo-liberalism. In Indonesia, neo-liberal economic policies are often seen as policies of deregulation that make it easier for foreign investment to operate in Indonesia, sometimes, it is

²² <http://economy.okezone.com/read/2015/09/09/470/1211353/jokowi-dukung-investasi-asing-di-properti-indonesia>

²³ http://www.bbc.com/indonesia/berita_indonesia/2015/09/150929_indonesia_paket_ekonomi2

²⁴ <http://www.worldbank.org/en/news/feature/2015/07/08/indonesia-economic-quarterly-july-2015> Presumable the target was for January-May.

²⁵ Max Lane, op cit.

claimed, at the expense of domestic business. Non-Government Organisations, large numbers of economists as well as politicians have used this anti-neoliberal, nationalistic rhetoric to attack the earlier Megawati and Yudhoyono governments. There is a widespread sentiment that Indonesia's natural resources are controlled by foreign corporations and that Indonesia is a milk cow for those interests.

In 2015, this kind of issue remained also very high-profiled, primarily because Widodo's main opponent, Prabowo Subianto, took a nationalistic posture, making an accusation that hundreds of billions of dollars were being sucked out of the country by foreign corporations. Criticism of the level of taxes paid by the giant mining enterprise, Freeport, in western Papua has been one symbolic, but resonant, manifestation of this sentiment. During October, there has been further discussion, even disagreement, in Cabinet over how the extension of Freeport's contract should be handled. Coordinating Minister for Maritime Affairs, Rizal Ramli, – who has a long reputation for profiling himself as a nationalist economist – has insisted that Freeport must be asked to pay more royalties.²⁶

The existence of such a nationalistic sentiment is now a consolidated given in Indonesian politics. After Suharto opened the door so widely to foreign investment in 1967, nationalist politics had been totally defeated, as manifested in the physical crushing of the nationalist left. In 2015, Widodo faces a revived nationalistic sentiment. It is crucial to note, however, that this sentiment has no effective political vehicle.²⁷

As indicated below, however, the parliamentary opposition, whose leader Prabowo Subianto, spearheaded the anti-“leakage” rhetoric of the election campaign, has not been able to fully use this issue, due to some of its own disposition towards the “foreign”.

This situation faced by Widodo has resulted in various nationalist contortions. While there has been the backtracking on Indonesian language testing for expatriates, the easing of visa restrictions for foreign workers, easing of regulations on alcohol sales and the deregulation packages of September 9 and 29, there has also had to be various counter-balancing nationalistic posturing – although, again, this has sometimes become hard to sustain in practice. Most of this nationalistic posturing too is being presented more as a sub-text, secondary to main policy prescriptions, and more for atmospherics. To date, however, it must be still noted that the government's insistence on the use of rupiah for all transactions, the use of Letters of Credit and the extended Negative Investment List have not been explicitly repealed, although now, the Negative Investment List, is being reviewed and may see a retreat.

The nationalistic posturing can be seen in the initial statements of officials relating to Singapore's protests around the haze-generating fires in Sumatra. Vice-President Jusuf Kalla was very dismissive. More recently, former democratic and anti-corruption activist, but now Chief of Staff for President Widodo, Teten Mazduki, made the comment that Singapore should

²⁶ <http://nasional.tempo.co/read/news/2015/10/14/078709386/sambil-gebrak-meja-rizal-ramli-tolak-us-3-m-dari-freeport>

²⁷ Several new parties have established themselves all of which make nationalistic appeals, however, none yet have broken onto the national stage in a serious way at this point in time.

in fact be grateful for the 9 months of oxygen that Indonesia supplies to Singapore.²⁸ However, while initially dismissive of Singaporean offers of help to fight the fires, Widodo eventually accepted the offer, along with those from other countries.²⁹

Another nationalistic posturing has been connected to the negotiations with China and Japan about the building of a fast train between Jakarta and Bandung. The project was finally granted to China after extended negotiations, and after an initial statement that the project would not go ahead at all.³⁰ China won the contract by assuring Indonesia that it could fund the project without any Indonesian budget funds. Japan protested the decision, partly arguing that Indonesia had changed some of the conditions.³¹ While Indonesian officials promised Japan their investments were welcome in other areas, including for another fast train, the media, including social media, played up the decision as Indonesia asserting its power against a major player such as Japan that was wanting Indonesia to contribute financially to the project. At the same time, others have protested the cooperation with China, partly mobilising on the basis of local anti-Chinese sentiment, but also latching on to the general sentiment that somehow Indonesia is a milk cow for foreign business.

As can be seen, the nationalistic rhetoric is being confined very much to the level of “sub-text”. The issues are not substantial, and sometimes need to be reversed. This nationalistic rhetoric remains at the “sub-text” level for two major reasons. First, of course, nationalistic rhetoric runs directly counter to the fundamental basis of Widodo’s economic strategy, which is to maximise the role of foreign investment in the economy and which has overwhelming support from the whole elite. Widodo’s initial infamy in Indonesia among critics of neo-liberalism were his power-point sales pitches direct to foreign businesses in several countries to come and do business in Indonesia. The direct reversal of some policies, such as the Indonesian language test for expatriates, is symptomatic of the contradiction.

This orientation towards opening the economy was also manifested in Widodo’s appointment of Singapore-based private sector investment fund manager, Thomas Lembong, as Trade Minister. Lembong accompanied President Widodo during his visit to the United States, where it was announced that Indonesia wanted to eventually join the Trans-Pacific Partnership, which would certainly require further opening up.³²

A second reason is the absence of any effective political force in Indonesia trying to use the nationalistic rhetoric as its main focus for opposition to Widodo. The most obvious potential here is the Red and White Coalition (KMP, Koalisi Merah Putih), formally led by Prabowo Subianto, who used the nationalist card during the election campaign. Fadli Zon, the senior member of parliament from Prabowo’s party, Gerindra, has been a constant critic of Widodo on a range of issues. On fundamental economic policy, such as the two Economic Policy

²⁸ <http://m.tribunnews.com/nasional/2015/09/28/teten-masukisingapura-harus-memahami-kesulitan-kita>

²⁹ <http://dunia.news.viva.co.id/news/read/684485-singapura-lega-ri-akhirnya-mau-terima-bantuan-lawan-asap>

³⁰ <http://www.straitstimes.com/asia/se-asia/jakarta-scraps-high-speed-rail-project>

³¹ <http://www.ft.com/intl/cms/s/0/eca4af84-67fa-11e5-97d0-1456a776a4f5.html#axzz3oJI3Cr9s> (Japan cries foul after Indonesia awards rail contract to China.)

³² <http://www.nationmultimedia.com/business/Indonesia-not-ready-to-join-TPP-30271769.html>

Packages, the criticism has been relatively soft, taking a “wait and see” attitude³³. Zon has been more active promoting his credentials as an anti-corruption politician, being elected head of an international body of parliamentarians against corruption, and defending the existence of the Indonesian Corruption Eradication Commission (KPK). The soft critique of economic policy is consistent with the KMP’s posture since the beginning of Widodo’s Presidency. The KMP has supported Widodo’s budget amendments and other policies, apparently wanting to make sure that any eventual economic failure by Widodo will be seen as his own work, and not the result of harassment from the opposition in the parliament. Moreover, there do not seem to be any ideological or fundamental policy disagreements from the KMP with Widodo’s economic policies. In any case, credibility of any potential anti-foreign agitation by Zon and other KMP politicians is compromised by their taking obsequious selfie photos with Donald Trump at a Trump rally in the USA. The high costs charged to the Indonesian taxpayer, of the parliamentarians’ study tour, which included spouses and children, also damaged their general credibility.

CONCLUSION

The pattern of increasing openness to foreign investment, especially for infrastructure, will remain central to Widodo’s Presidency. This will continue to generate a contradiction with the widespread nationalistic sentiment. This contradiction will require continuing low level nationalist posturing. The absence of an effective nationalist political vehicle, although new parties are forming, will allow this posturing to remain at a low level, until there are major failures in the infrastructure programme or worsening growth or a serious decline in FDI figures.

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³³ <http://fadlizon.com/perlu-evaluasi-kebijakan-ekonomi.html>